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C O N F I D E N T I A L CARACAS 000527

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SUBJECT: LULA COMES TO CARACAS

Classified By: ECONOMIC COUNSELOR RICHARD M. SANDERS FOR REASON 1.4 D

SUMMARY

1. (SBU) Brazilian President Luiz Inacio Lula Da Silva concluded a 24-hour visit to Venezuela on February 14. His visit included public appearances at a conference of business leaders along with a joint Brazilian-Venezuelan declaration and signing ceremony for more than two dozen agreements. The Brazilian leader's visit provided President Hugo Chavez with another opportunity to promote his own "Bolivarian" political and economic agenda while thumbing his nose at the U.S. in the process. The big winner however is Brazil, which comes away with a series of commitments (albeit mainly at the "letter of intent" level) aimed at increasing trade with Venezuela and access to the lucrative Venezuelan petroleum sector. End Summary

Feel the Love

2. (SBU) Mutual admiration was definitely high on the agenda at Caracas' Miraflores Palace on February 14. Brazilian President Luiz Inacio Lula Da Silva publicly characterized the relationship between Brazil and Venezuela as a "strategic alliance" across a number of areas including petroleum, military purchasing and cooperation, and infrastructure projects. The agreements signed by the two countries, Lula said, are "a model of integration that we want to practice with other colleagues in the region." Lula's visit to Venezuela comes soon after the ratification of the "economic complementation agreement" between Mercosur, the South American Common Market, and the Andean Community on February 1, which envisions a slow liberalization of trade between the two entities, but has as many as 6000 footnotes and exemptions which limit its application.

3. (SBU) Venezuelan President Hugo Chavez, who has been calling loudly for Latin American integration said that Brazil's support for uniting Latin America against the U.S. was "vital" and that the process of integration had "come to the point of no return." In a meeting with Venezuelan and Brazilian businessmen at the presidential palace, both leaders alluded to the U.S. saying that the solution to the economic problems of South America is "not in the north." Chavez also said that that integration of South America is more important "than ever because of the many threats." Complementing Chavez, Lula said that he was happy with what was occurring in Venezuela "where we are seeing a government concerned with the industrialization of the country."

Sign on the Dotted Line

4. (U) During the Brazilian leader's visit, the two governments signed a joint declaration that included a reported 26 bilateral agreements, accords, memoranda of understanding and letters of intent. The majority of these agreements were petroleum related, but also included accords on agriculture, science and technology, and military issues.

5. (C) One agreement calls for the two state oil companies, PDVSA and Petrobras, to jointly explore, pump, and sell natural gas and crude oil. The agreement envisions joint participation in the Mariscal Sucre and Deltana Platform natural gas projects as well as gas extraction in the Gulf of Venezuela and heavy oil extraction in the Orinoco belt. A U.S. executive whose company has an investment in a field now operated in Venezuela by Petrobras discounted the seriousness of much of the "letter of intent" oil agreements. With respect to the Mariscal Sucre and Deltana Platform project references; however, he noted that the agreement could block the access of other companies to those projects.

6. (U) According to Brazilian media reports, Brazil's largest petrochemical firm, Braskem, and Venezuela's PDVSA have signed a memorandum of understanding which covers a joint project to build a petrochemical plant in Venezuela. Chavez,

who this month signed an agreement in Argentina to establish a PDVSA branch and open a chain of service stations in the

country, is also reported to be interested in having PDVSA purchase the petrochemical unit and nationwide service station chain of the Brazilian Iparanga Petroleum Company.

17. (C) An American mining executive told Econcouns that of all the deals mentioned, the most likely to come to fruition were those for the Brazilian construction firm Odebrecht to build an additional bridge across the Orinoco, and mining giant CVRD's joint venture in coal with Venezuelan state entity Carbozulua.

The Raw Numbers

18. (SBU) Trade between Venezuela and Brazil has traditionally been fairly minimal. Over the last several years, an average of around 6% of Venezuelan imports and 2% of exports have been accounted for by Brazil. Bilateral trade in 2004 was approximately \$1.6 billion, almost double the \$880 million level of the economically disastrous year of 2003, but still below the level of trade in 2000. The large expansion in joint-energy projects envisioned in the agreements would, according to President Lula, be nearly double bilateral trade again this year to \$3 billion.

F-16's and Super Tucanos

19. (U) A key area of interest to Venezuela is the purchase of military aircraft from Brazil. According to media reports, Venezuela has been interested in purchasing 12-24 "Super Tucano" light-combat airplanes from Brazil's Embraer, the world's fourth largest manufacturer of civilian and military aircraft. Such a purchase is valued at between \$110 and \$180 million. Embraer would also be involved in maintaining and upgrading the existing Venezuelan Tucano fleet. Though Chavez and Lula did sign a military cooperation agreement, no sales agreement was signed.

110. (SBU) During his weekly "Alo Presidente" television program that aired the Sunday before Lula's visit, Chavez claimed that the U.S. had repeatedly delayed delivery of spare parts for Venezuela's F-16 fleet, that the U.S. imposed "unacceptable conditions," and that he would have to "look elsewhere for the parts." While the turboprop Super Tucano is hardly a substitute for the F-16, Chavez nonetheless praised Brazil for "not imposing those kinds of restrictions" on Venezuela.

COMMENT

111. (SBU) Brazil has much to gain from Lula's visit. Brazil is interested in a number of joint projects between Petrobras and PDVSA. In addition, gaining entree for Brazilian industrial firms into Venezuela could help them obtain contracts for additional large infrastructure projects. Despite Lula's claim that the agreements signed during this visit will help to double bilateral trade this year, there are so few firm plans in the these agreements that it is doubtful that the impact in 2005 could be so substantial.

112. (C) Lula has clearly expressed his interest and policies regarding South American integration and closer political and economic ties. Cooperation with Venezuela has the added bonus of being very profitable for Brazil and Brazilian firms. As with other leaders who have visited before, Chavez saw Lula off clutching a massive sheaf of signed papers and documents. Critics are quick to point out that the dossier is long on intention and short on substance. The meeting however served both parties well: Chavez gains a bit of legitimacy in regional cooperation and may get his Super Tucanos; Lula gains more political traction in his goals of continental integration and economic success in expanding Brazil's market access.
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